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XIAOMI CORPORATION

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Abstract

Xiaomi Corporation has had success in the Indian market. Its business model of selling smartphones almost at cost through online and offline channels, presenting razor thin profit margins, has granted it the title of market leader in this country. This paper proposes to explain the macroeconomic factors behind why this low-cost strategy resulted well in this country and how these factors might influence the smartphone market in India. It also proposes to evaluate the impact that the yearly change of the Indian smartphone market has on Xiaomi Corporation's total revenue in 2020E, the year that the 5G innovation is introduced.

Keywords: Xiaomi Corporation; Smartphone; India; Company Analysis

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1. The importance of the Indian smartphone market in Xiaomi's revenue

The Indian smartphone market has had and will continue to have a great impact on Xiaomi's revenue (Rawal et al., 2017).

According to Xiaomi's 2018 annual report, in 2018, 65.00% of its revenue derived from the smartphone segment, of which 40.00% originated from countries outside of China. This globalization trend is increasing rapidly since, in 2017, only 27.99% of revenue originated from countries outside of China. In this aspect, special emphasis was put on the Indian market, where the company grew YoY% 10.50% in 2018 and where it is currently the smartphone market leader, presenting an overall market share of 19%, according to Counterpoint Research (2019). Xiaomi entered the Indian market in July 2014, first only on an online basis through Flipkart, Amazon.com and Snapdeal (Rawal et al., 2017). The first Mi Home store was opened in 2015, the same year that Xiaomi expanded its factory operations to India, which allowed it to produce 77% of smartphones sold in India locally, reducing operational costs and making its operations more profitable (Rawal et al., 2017).

Since most of Xiaomi's revenue originates from the sale of smartphones and given the emphasis put on the Indian market by the company, it seems important to analyze in depth the Indian smartphone market to understand its past and its possible evolution and evaluate the impact that this might have on Xiaomi's future results.

2. Macroeconomic factors and its impact on the Indian smartphone market

After China, India is the second largest Telecom market worldwide, exhibiting a strong and persistent growth over the years which makes it attractive to technology-based companies. This growth has been due to the decreasing smartphone cost and increasing availability of these devices in the country, according to McKinsey Global Institute (2019), which allows a wider accessibility of smartphones to poorer classes. Beside these, the higher diversity of low-end devices also contributed to this sector's growth as stated by the same source. The introduction

of the 5G network in 2020E is expected to give a further boost to the market, according to the same source.

In order to further understand the Indian smartphone market growth, it is important to study macroeconomic indicators that may influence it. According to Yamakawa et al. (2013), some economic and demographic factors, such as the purchasing power, the population density, the income per capita and the age profile, have been found to have a positive impact on the mobile phone penetration rate, which, on turn, has been linked to market growth.

Bearing these factors in mind, according to Statistica (2019), India currently is the second-largest populated country worldwide, presenting a YoY% growth of 1.10% in 2017, the lowest YoY% growth since 1981. In terms of the age profile, in 2016, 27.8% of the Indian population fell in the 0-14 age category, 63.6% fell on the 15-64 years category, while only 6% fell in the over 65 years category, implying that most people in India are young. Mallenius et al. (2007) states that younger generations are early adopters of new technologies and that they can influence older generations to also adopt this new technology. Since the Indian population is mostly constituted by younger people, it is possible to conclude that its population is more likely to adopt new smartphone models than the European ageing population, for example, and that, additionally, these younger generations can influence the older generations to also adopt these new models, which, summed to the fact that India has the second-largest population worldwide, proves this country potential to grow in the smartphone market.

As for the mobile phone penetration rate, it corresponded to 26% in 2018, according to Statistica (2019), being expected to reach 36.2% in 2022E. Since this rate is still low compared to the rate of more developed countries, which already present a declining smartphone market, it is possible to conclude that the Indian smartphone market, by having a low mobile phone penetration rate, still has many possibilities to further grow as there are still many potential first-time consumers.

On the other hand, the Indian income per capita has been rising, with an estimated 10% YoY% increase from 9,580 rupees a month in 2018 to 10,534 rupees in 2019, according to Statistica (2019). The average selling price of a smartphone in India was 9,251 rupees in 2018 (Statistica, 2019). The income per capita in 2019 surpassed this average value, which is a good signal for further growth in the smartphone market since most people possess more income than the cost of the average smartphone, which translates into a wider accessibility of these devices.

3. The smartphone market and its impact on Xiaomi's revenue

By influencing the smartphone market growth, all these factors also influenced Xiaomi's performance. The fact that India is the second-largest population worldwide, with low mobile phone penetration rate and mainly constituted by younger generations which are more eager to adopt new technologies provided Xiaomi with many potential customers for its products, helping the brand grow as the population and consequently the smartphone market also grew. However, all competitors also experienced the same demographic conditions as Xiaomi, which means that Xiaomi must have had a differentiating factor to grow as much as it did. This factor was its low-cost strategy, which worked well with the Indian population. Since the Indian income per capita is significantly low, by placing itself as a mid to low-end smartphone category producer, presenting an ASP lower than the industry ASP, Xiaomi was able to attract many consumers that otherwise would not be able to afford a smartphone, at the same time that it stole consumers from other brands that offer the same type of product but more expensive.

As for the future, Xiaomi is expected to ride on the 1.93% YoY% growth that the 5G innovation is expected to bring to this market in 2020E and further solidify its position as the market leader in this country by opening more physical stores.

Xiaomi is counting on the market conditions, especially in the 5G introduction, in order to grow in India. For that reason, to determine how sensitive Xiaomi's total revenue is to the

Indian smartphone market evolution, I designed two scenarios for 2020E. In the first one, a smartphone market growth rate of 25% in 2020F was assumed, while in the second scenario, a growth rate of only 15% in 2020F was assumed. The first scenario assumes that the 5G introduction is more successful than expected, while the second scenario assumes the opposite.

Table 1 - Scenario Analysis results

Scenario Analysis	Base Scenario	Scenario 1	Scenario 2
Change in smartphone market (India) - 2020F	22,93%	25,00%	20,86%
Revenue 2020F	335 546 695	336 320 159	334 773 231

In the first scenario, Xiaomi's expected total revenue for 2020F grew by 0.2%, reaching a value of RMB336,320 million. On the other hand, in the second scenario, Xiaomi's expected total revenue for 2020E decreased by 0.2%, reaching a value of RMB332,583 million. Therefore, when changing the parameter by 2.07%, a variation of 0.2% in the total revenue was observed. These results prove that Xiaomi's overall revenue is not extremely sensitive to the Indian smartphone market evolution. However, it still has an impact and, given its leader position and market potential to grow, I believe that it still is important to monitor the Indian smartphone market evolution.

This analysis has several limitations. Specifically, it neglects the role that the remaining segments play on Xiaomi's revenue as well as the remaining world regions where Xiaomi operates in. As for the future possible research topics, a study which determines a specific relationship between the population growth, the mobile phone penetration rate and the smartphone market growth rate seems important.

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